

REPORT OF EXAMINATION
OF THE

FIDELITY NATIONAL
HOME WARRANTY COMPANY

AS OF
DECEMBER 31, 2004

Filed June 28, 2006

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San Francisco, California
April 10, 2006

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

FIDELITY NATIONAL HOME WARRANTY COMPANY

(also referred to as the Company) at its home office located at 2950 Buskirk Avenue, Suite 201, Walnut Creek, California, 94596.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of June 30, 2001. This examination covers the period from July 1, 2001 through December 31, 2004.

The present examination of the Company included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances. In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

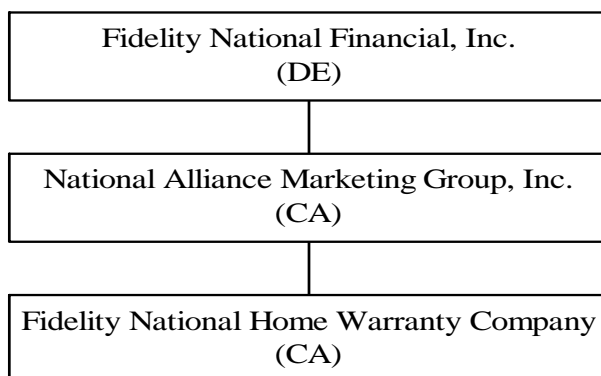
COMPANY HISTORY

The Company filed an amendment with the Secretary of State to its Articles of Incorporation on December 11, 2001. The amendment established a par value of \$1.00 per share of common stock and was the result of a recommendation from the prior examination as of June 30, 2001.

In 2003, the Company paid \$3.5 million and \$3.2 million in dividends to its parent company Fidelity National Financial. In December 2004 the Company paid its parent a \$7.2 million dividend. These dividend distributions were approved by the CDI.

MANAGEMENT AND CONTROL

The Company is wholly owned by National Alliance Marketing Group and is part of a larger group of companies ultimately controlled by Fidelity National Financial, Inc. The following is an abbreviated version of the holding company chart showing only the ultimate parent company, the parent company, and the Company being examined.



Members of the board of directors and principal officers serving at December 31, 2004 were as follows:

Directors

Name and Residence City

Principal Business Affiliation

Roger S. Jewkes
Santa Barbara, California

Executive Vice President, Division Manager
Fidelity National Financial, Inc.

Raymond R. Quirk
Jacksonville, Florida

President,
Fidelity National Financial, Inc.

Principal Officers

Name

Title

Billy D. Jensen

President

Charles M. Dyer

Chief Operating Officer

Cathy M. Tristant

Vice President, Assistant Secretary

Marjorie R. Nemzura

Vice President, Assistant Secretary

Eileen W. Van Roeyen

Vice President, Assistant Secretary

Matthew G. Hartmann

Vice President

Kevin R. Chiarello

Vice President

Donald E. Partington

Vice President

Richard L. Cox

Vice President

Patrick G. Farenga

Vice President

Peter T. Sadowski

Vice President

Sue A. Thomas

Vice President

Debra J. Estrada

Vice President

Olga M. Gander

Vice President

Patti A. Hackman

Vice President

Inter-Company Management Arrangement

The Company has an arrangement with Fidelity National Financial, Inc. (FNF) whereby FNF provides various accounting and administrative services to the Company. The Company received approval of the agreement from the California Department of Insurance (CDI) to implement this arrangement on March 11, 2003. The agreement was put into effect on March 12, 2003.

Federal Income Tax Allocation Arrangement

The Company files a consolidated Federal Income Tax return with FNF, its ultimate parent. FNF has drafted a Federal Income Tax Allocation agreement between itself and its subsidiaries, which has been submitted to the CDI for approval.

TERRITORY AND PLAN OF OPERATION

The Company writes only home protection contracts and is licensed in Arizona, California, Colorado, Nevada, Oregon and Washington. Direct contract fees written for 2004 were \$68,286,127. Of this amount, 87% of the business was written in California.

The Company writes home protection contracts for single family homes, condominiums, town homes, mobile homes, duplex, triplex, and fourplex units with a duration of twelve months. During the contract period the Company is obligated to pay for repairs or replacement of covered systems and/or appliances that are damaged due to normal use. The Company also offers optional buyer's coverage for an additional fee, which includes additional items not covered in the standard plan.

Business is written through a sales force of 65 sales representatives who make contact with real estate professionals. The Company has three vice presidents of sales; one to manage the Northern California sales force, one to manage the Southern California sales force, and the third to manage the Northwest and Southwest sales force.

REINSURANCE

The Company did not assume or cede any reinsurance during this examination period.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Contract Holders from June 30, 2001
through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$39,524,837	\$	\$39,524,837	
Cash on hand and on deposit:				
Cash in company's office	600		600	
Cash on deposit	10,127,904		10,127,904	
Home protection contract fees receivable	1,520,344		1,520,344	
Receivable from affiliates	1,220,157		1,220,157	
Electronic data processing equipment	144,478	144,478		
Interest, dividends and real estate income due and accrued	515,570		515,570	
Equipment, furniture and supplies	111	111		
Other assets:				
Security deposits	11,437	11,437		
Prepaid claims expense:				
Other	<u>439,389</u>	<u>439,389</u>		
Total assets	<u>\$53,504,827</u>	<u>\$ 595,415</u>	<u>\$52,909,412</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Claims adjusted and unpaid or in process of adjustment			\$ 2,845,763	
Claims service expense			184,449	(1)
Other expenses			1,923,442	
Taxes, licenses and fees			446,482	
Unearned home protection contract fees			<u>27,314,450</u>	
Total liabilities			32,714,586	
Common capital stock (no par)		\$ 1,598		
Gross paid-in and contributed surplus		5,606,729		
Unassigned funds (surplus)		<u>14,586,499</u>		
Surplus as regards contract holders			<u>20,194,826</u>	
Total liabilities, surplus and other funds			<u>\$52,909,412</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income

Home protection contract fees earned		\$63,698,813
Deductions:		
Claims incurred	\$29,022,069	
Claims service expenses incurred	4,171,803	
Other underwriting expenses incurred	<u>18,820,463</u>	
Total underwriting deductions		<u>52,014,335</u>
Net underwriting gain		11,684,478

Investment Income

Net investment income earned	<u>\$ 1,223,136</u>	
Net investment gain		<u>1,223,136</u>
Net income before federal income taxes		12,907,614
Federal income taxes incurred		<u>4,556,606</u>
Net income		<u>\$ 8,351,008</u>

Capital and Surplus Account

Surplus as regards contract holders, December 31, 2003		\$18,826,402
Net income	\$ 8,351,008	
Dividends to stockholders	(7,200,000)	
Change in nonadmitted assets	<u>217,416</u>	
Change in surplus as regards contract holders for the year		<u>1,368,424</u>
Surplus as regards contract holders, December 31, 2004		<u>\$20,194,826</u>

Reconciliation of Surplus as Regards Contract Holders
from June 30, 2001 through December 31, 2004

Surplus as regards contract holders: June 30, 2001, per Examination			\$ 9,322,571
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$24,712,098	\$	
Change in nonadmitted assets	60,157		
Dividends to stockholders (cash)	<u> </u>	<u>13,900,000</u>	
Total gains and losses in surplus	<u>\$24,772,255</u>	<u>\$13,900,000</u>	
Increase in surplus as regards contract holders			<u>10,872,255</u>
Surplus as regards contract holders, December 31, 2004, per Examination			<u>\$20,194,826</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Claims Service Expense

The Company could not provide workpapers to support the claims service expense annual statement amount. No examination adjustment was considered necessary as the amount was below the examination materiality. It is recommended that the Company maintain workpapers to support the claims service expense reserve on claims that are adjusted and unpaid or in the process of adjustment in future financial statements.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items – Claims Service Expense – (Page 9): It is recommended that the Company maintain workpapers to support the claims service expense reserve on claims that are adjusted and unpaid or in the process of adjustment in future financial statements.

Previous Report of Examination

Corporate Records – (Page 4): It was recommended the Company comply with CIC Section 735. The Company is now in compliance.

Management and Control – Conflict of Interest Statements (Page 4): It was recommended that the Company establish procedures to solicit conflict of interest statements from its directors, officers and key employees on an annual basis. The Company is now in compliance.

Comments on Financial Statement Items – Other Assets – (Page 10): It was recommended the Company non-admit its system application development costs in accordance with the NAIC

Accounting Practices and Procedures Manual and Schedule 1, Footnote (D) of the Home Protection Company Statement Blank. The Company is now in compliance.

Comments on Financial Statement Items – Claims Service Expense – (Page 10): It was recommended that the Company establish a claims service expense reserve on claims that are adjusted and unpaid or in the process of adjustment in future financial statements. The Company established a claims service expense amount, but could not substantiate the amount. This will be a comment in the current examination.

ACKNOWLEDGEMENT

The undersigned would like to thank the Company's officers and employees for their cooperation and assistance during the course of this examination.

Respectfully Submitted,

/s/

Susan Bernard, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California